Forum Series on the Role of Institutions in Promoting Economic Growth

Comments by Jonathan A. Sleeper on a *"CDIE Assessment of USAID Field Missions and the Proposed IRIS Approach"*

Forum 5: NIE-Based Toolkits for USAID Applications

USAID Discussant Remarks

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Summary: CDIE recently conducted an assessment of how USAID field missions program activities to achieve the goal of poverty reduction. The findings of this assessment strongly imply that many of the proposed applications of new institutional economics discussed in this seminar will likely not be applied or used at the country Mission level. An NIE analysis is needed of the institutional incentives faced by Mission Directors and how their actions affect the strategic environment.

CDIE Assessment

Recently CDIE conducted an assessment of USAID Missions in Heavily Indebted Poor Countries (HIPC) going through the debt reduction process associated with the Poverty Reduction Strategy Paper (PRSP). The assessment found the following characteristics of USAID Missions:

> Failure to appreciate PRSP & donor coordination process. Some Mission directors failed to appreciate the importance of the PRSP process and donor coordination. Part of this was due to the failure of AID/W to provide adequate guidance on the PRSP process. There are very good reasons why USAID Missions should actively engage in this process. The PRSP process gives donors some excellent opportunities to ask the hard political economy questions on transparency (amongst other things), which even a few years ago could not be asked. Donor coordination is also very important because of increased pressure by Congress to show results and achievement of our strategic objectives depends in large part on the actions of other donors.
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> Failure to appreciate problems of economic policy reform ("Let the WB & IMF worry about it…"). The costs of technical assistance in economic policy reform are not very high. Rather than engage in policy reform, the attitude on the part of many Mission directors and their staff is, "Let the World Bank & IMF worry about policy reform." This is not an appropriate position for the US government, which is one of the larger bilateral donors in the 19 HIPC countries. In many Missions, we don't even do health policy reform - why do policy reform when you are the largest service provider? When the political will to adopt policy

reform is weak, but aid funding is abundant, it is only natural that USAID officers focus on service delivery, especially when development results must be quantifiable and measurable on an annual basis. As one senior officer stated when discussing USAID health programs:

> We need to wean them off the services, but we have so much money available for health programs that we use it on service delivery. Instead, we need to improve how the system functions. But you don't need policy changes to achieve your results when you can finance it all. When you have fewer resources, you look for levers; when you have lots of money, you do direct service delivery.[1]

Shift to "easy" service-delivery projects. The shift to “easy” service-delivery projects away from policy reform work is partly due to the Congressional earmark process which favors Child Survival and Micro-enterprise programs, all which subtract monies available for economic growth. In his comments, Dr. Bates was correct in saying that incentives for carrying out certain activities in USAID Missions are politically driven. The lack of a directly-affected domestic constituency for foreign aid allows US PVOs to exert disproportional influence on the allocation of foreign aid funds. And PVOs tend to focus on service delivery. The focus on “easy” service-delivery projects is also due to the Results Reporting process which requires measurable, quantitative benchmarks on a six-month or annual basis. Clearly, longer-term economic policy reform programs with their typically fuzzy, qualitative benchmarks do not fit into this strict format.

Relegation of large part of portfolio to US PVOs and possible disengagement with government. In the shift to "easy" service delivery projects, some Missions have relegated over 50% of their portfolio to US PVOs who manage social service delivery programs. Of course, this was partly due to severe staff cut-backs in the Agency, as well as the “Results Management” reporting system which favors service delivery & discriminates against longer-term policy reform. The perception that USAID country assistance programs may be in danger of losing policy engagement with host country governments is not new: the *FY 1999 Trends Analysis* for the Latin America & Caribbean Bureau noted the decline in economic growth resources over the late 1990’s, and the concurrent increase in programs targeting delivery of micro-enterprise and social services to the poor under the bureau’s poverty strategy. The report recommended that Latin America Missions take a more active role with respect to economic policy and governance reforms.[2] It is difficult to remain engaged with the government on broad macroeconomic policy issues when practically your entire portfolio is implemented by NGOs carrying out social service delivery programs.

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[1] USAID (March 2003). *USAID’s Approach to Poverty Reduction: The Case of Honduras*. Evaluation Brief no. 5. DEC document no. PN-ACR-351.

[2] *LAC FY 99 Trends Analysis: Economic Growth Area*. June 1999. See also: Plunkett, D. J. & Salinger, B. L. (1999, January). *A Case Study of the United States Agency for International Development.* (Cambridge, Mass.: Associates for International Resources and Development).

<u>Mission Management</u>

Much of the success or failure in donor coordination, policy reform and engagement with government depended on the particular mix of personalities in the Mission. When discussing donor coordination, for example, it was often stated that good donor coordination depended on the personal incentives and motivation of the aid representatives at post. When you need a mix of personalities, that implies that there is a lack of institutional incentives - in the training, in the job descriptions, in the day-to-day work - to do the right thing.

The IRIS proposals presented at this seminar focus on how the misalignment of institutional incentives manifests itself at the level of relationships between the USAID project officer (COTR), contractors and grantees. I suggest that IRIS needs to be re-focused at a higher threshold.[3] Obviously, the "COTR's own personal motivations," as pointed out in the Espina/Zinnes study, play a very important role. However, they do not matter as much as the personal motivations of the Mission Director & Deputy Mission Director in the USAID Mission. These persons set the tone, determine much of the policy emphasis and pay attention - or don't pay attention - to particular activities and procurements. The Subrick/Zinnes study posits that the in-coming Mission director will actually be concerned enough about the important economic growth issues, e.g., that there is adequate institutional “depth” for trade liberalization, to conduct an assessment of the trade sector. It IS a useful orienting device for in-coming Mission directors, but do they get oriented, and do they take action afterwards?

<u>Recommendations</u>

These observations lead to questions about training, instruction & resources available for Mission Directors. It is recommended that USAID take a closer look at how the misalignment of institutional incentives may manifest itself at the Mission Director level. The evaluation would ask the following questions.

> Do Mission Directors regularly conduct country (re)assessments?
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> Do they ask the “hard questions” & design the most appropriate programs in line with the idiosyncratic characteristics of the country, or do they adopt a "one size fits all" approach?
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> Or do they support their own "pet" activities rather than carry out the policy directives of the current administration?
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> What prevents Mission Directors from doing "pet" projects?

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[3] This comment also refers to the lack of political economy analysis in some of the studies, another reason why IRIS needs to raise its threshold.

What role do current administration policy directives play in their design decisions?

How well do Mission Directors understand the economic growth process?

How do Mission Directors ensure that their programs learn from experience?

Are training & orientation resources adequate? Are personnel resources at post adequate?

Because of funding problems, it is proposed that these questions be converted into an interview protocol for returned or retired Mission Directors. Approximate interview length of time would be 45 minutes.

We would welcome any suggestions as how to apply NIE to this proposed evaluation.